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**ABSTRACT**

*The main objective was to establish the effect of external auditing on the firm performance of financial institutions in Rwanda. Under four specific objectives; the first was to determine the effect of financial statement audit on firm performance of bank of Kigali, head quarter, the second was to establish the effect of compliance audit on firm performance of bank of Kigali head quarter, the third was to investigate the effect of performance audit on firm performance of bank of Kigali, head quarter and the forth was to investigate the moderating effect of skilled employees on the relationship between external auditing and the financial firm performance of bank Kigali, head quarter. In order to conduct clearly our research study we formulated the following hypothesis;* $H_{o1}$ *financial audit has no significant effect on firm performance of bank of Kigali, head quarter.* $H_{o2}$ *compliance audit has no significant effect on firm performance of bank of Kigali head quarter.* $H_{o3}$ *Performance audit has no significant effect on firm performance of bank of Kigali head quarter.* $H_{04}$ *skilled employees has no significant moderating effect on the relationship between external auditing and the financial firm performance of bank of Kigali head quarter. The explanatory research design was applied. Data was collected from both primary and secondary source where the primary data was collected using questionnaire and secondary data was collected using documentation techniques. The target population of was 87 employees of bank of Kigali head quarter. A sample size of 87 employees was selected using universal sampling technique. The results from the table 11 indicated that the ANOVA statistics show that (F=198.977, p = .000*$^b$*), the p-value (0.000) is less than the level of significance (0.05). Hence, the study concluded that the skilled employees, Performance audit, Compliance audit, Financial statement audit has a significant effect on firm performance of bank of Kigali, head quarter (ROE). Then alternative hypothesis were accepted while null hypothesis were rejected. The study concluded that the skilled employees, Performance audit, Compliance audit, Financial statement audit has a significant effect on firm performance of bank of Kigali, head quarter (ROE). Then alternative hypothesis were accepted while null hypothesis were rejected.*

**Key Terms:** *Audit, External auditing, firm performance, and financial institutions*

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## INTRODUCTION

The recent financial crisis revealed not only the weaknesses of risk management, control and governance processes in banks, but at the same time, proved the necessity to improve the quality of external audits carried out by banks. The audit function plays an important role in the corporate mechanism, particularly due to its capacity to add value to the governing process. Therefore, over time, it became the main topic of various studies focused on the issue of information transparency. Very often analyzed from the perspective of audit committee, commended in terms of members' number, mainly the independent ones, as well as from the perspective of external audit quality, the audit function has mostly proved to be positively correlated with the level of disclosed information by organizations (Nedelcu*et al*., 2015).

The banks, by their operations nature, are exposed to a variety of risks that can have a negative impact on their results or on their financial situation. These risk categories include, but are not limited to, credit risk, liquidity risk, market risk, operational risk, solvency and regulatory risk. Also, a variety of new risks may arise or significance of each risk can change with time, due to various factors, either internal or external, that occur in banking business area. Within audit planning and developing activities taking place in a bank, the external auditor identifies and assesses the risks of occurrence of significant misstatements within the contents of statements and financial reports. At the same time, the external auditor acquires a proper understanding of the internal controls considered relevant for audit conducting, including the control environment designed and implemented at the bank level(Nedelcu*et al*., 2015).

External auditing which is the function of statutory auditors, is the process of reviewing the accounting and financial books of a company by a certified public accounting (CPA) firms (Inyiama, 2010). External audit add credibility to management's inherent assertions included in the financial statements which is achieved by gathering and evaluating audit evidence. Emphasis on internal control review has brought about development of additional audit objectives in the evaluation of internal controls. The auditors are placed in a position that enables them to suggest improvement in the clients accounting system and controls as well as to offer ideas for improving financial planning, tax planning and clerical efficiency (Koo & Sim, 1999). The foremost importance of auditing is to ensure accuracy and correctness of the accounting to a great extent. Audit is an easy means to ascertain whether the undertaking is in fact maintaining the registers and books of account as required under the law. Employees in charge of the maintenance of books of account and other records are regular, careful and systematic in their work. Errors and frauds committed by employees of the business can be detected promptly. The knowledge of an impending audit acts as a moral check on the employees who may otherwise be tempted to commit embezzlement (Lowe &Pany, 1995).

While performing the audit, the external auditor assesses bank's financial statements, aiming at obtaining the reasonable insurance that these statements do not contain considerable distortions, due to fraud or error. Thus, at the end of the auditing process, the auditor will state the opinion that the financial statements are organized according to the applicable financial reporting framework. Hence, the external auditors play a key role in maintaining public confidence in audited financial statements. In terms of banking services, this public role is particularly relevant in ensuring banks' financial stability taking into account their financial intermediating function played in the economy(Nedelcu*et al*., 2015).

Nkurunziza (2012) assert that external audit play big role by helping the banks to respect rules, regulations, procedures, review past performance, advise from external auditors reports, rectify some irregularities, and detect fraud and error in order to achieve banks objective and mission. Therefore external audit has significance role to control the functioning of banks and when external audit is associated of control measures, it can improve the highest performance and promoting credibility of the bank. External audit provide a load map to the whole framework of bank's performance indicators.

**Objectives of the Study**

The general objective of this study was to establish the effect of external auditing on the firm performance of financial institutions in Rwanda.

Specifically, this study attained the following objectives;

- To determine the effect of financial statement audit on firm performance of bank of Kigali, head quarter.
- To establish the effect of compliance audit on firm performance of bank of Kigali, head quarter.
- To investigate the effect of performance audit on firm performance of bank of Kigali, head quarter.
- To investigate the moderating effect of skilled employees on the relationship between external auditing and the financial firm performance of bank of Kigali, head quarter.

**Problem Statement**

Worldwide; external audit is a key contributor to financial stability and to reestablish trust and market confidence. Auditors are entrusted by law with conducting statutory audits and fulfill an important role in offering an opinion on whether the financial statements are stated truly and fairly. This assurance should reduce the risk of misstatement, subsequently, reduce the costs of business failures. The external audit exercise is a governance procedure that reviews and analyses a company's internal audits and control the fiscal reports to avoid material misstatements (Quick, 2012). According to Inyiama (2012), the external auditors 'reports are key to measuring the firm performance of financial institutions. External auditor has the responsibility for the prevention, detection and reporting of fraud, other illegal acts and errors (John, 2010).

Extensive studies have been conducted in many countries into the perception of external auditing on the firm performance of financial institutions, John (2010) in Nigeria; Quick (2012) *in* Germany; Farouk and Hassan (2014) in Nigeria; Nedelcu*et al*. (2015) in Romania; and Angye(2018) in Finland. These studies found that many financial report users believe that the detection of irregularities is a primary audit objective and that the auditors have a responsibility for detecting all irregularities. This is a misconception and shows the existence of an audit expectation gap between external auditors and firm performance with respect to the actual duties of external auditors. Despite the responsibilities of external audit, the study therefore sought to assess the effect between external auditing on firm performance of financial institutions in Rwanda.

## LITERATURE REVIEW

### Theoretical literature review

**Conceptual review on firm performance**

In general, the performance is defined as the achievement of the objectives set forth by the firm (the bank) within the agreed time and with minimal costs while using the available resources. The measure of performance is, as any function of control and management, a way to guide the behavior of the actors of an organization and motivate them. There fare, Improvement cannot take place unless there is a way to get feedback on performance, because measure is the first step to improvement.

There are two basic types of measurement of firm (bank) performance. The first type is related to the results (the second one financial measure) focuses on the determinants of the results (nonfinancial measures) such as quality, flexibility, use of resources, and innovation. This stipulates that, as part of performance, measurement can be established around the concepts of outcomes and determinants. In fact, we notice that there is an evolution of performance models on financial measures. Therefore, many studies have used criteria such as profitability ratios (return on assets (ROA); return on equity (ROE) and Net profit margin (NPM). Profitability ratios as a measure of bank performance several authors used the ROA, ROE and NPM measurement to designate firm performance of financial institutions.

**Return on Assets**

Return on Assets (ROA) measures the ability of the bank management to generate income by utilizing company assets at their disposal (Atril, 2006). A higher ROA shows that the company is more efficient in using its resources (Wen, 2010). ROA represents the rentability of funds employed and expresses the ability of these funds to create a certain level of operational benefits. This measurement has been used by a large number of authors like Adams and Santos (2005) and Eisenberg *et al*. (1998). The measurement, which was kept throughout this study, for the calculation of ROA is as follows:

$$\text{ROA} = \frac{\text{Profit after tax}}{\text{Total assets}} * 100$$

Generally, a higher ratio means better managerial profit and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets.

**Return on Equity**

This ratio is also called the financial profitability coefficient. It is considered among the most financial indicators used to measure banking performance. It shows the contribution of equity in the realization of the result. It measures, in some way, the investor's returns level, that is, the higher it is, the more the funds allocated are more effectively used to achieve a positive result. Several authors have used, too, this performance measure as Bouri&Bouaziz (2007). The measure that holds to measure the ROE is as follows:

$$\text{ROE} = \frac{\text{Profit after tax}}{\text{Equity}} * 100$$

This ratio reflects that how much the firm has earned on the funds invested by the shareholders. This ratio is expressed in the percentage form of net profit earned to the owner's equity. The ratio measures the efficiency with which shareholders' fund are employed. Business with high return on equity is more likely to be one that is capable of generating cash internally (Unegbu, 2007). Thus, the higher the ROE the better the company is in terms of profit generation.

**Net Profit Margin**

NPM expresses the relationship between net profit after taxes and sales. This ratio is a measure of the overall profitability and hence it is very useful to proprietors, net profit is arrived at after taking into account both the operating and non-operating items of incomes and expenses. The ratio indicates what portion of the net sales is left for the owners after all expenses have been met. This ratio also indicates the firm's capacity to face adverse economic conditions such as price competition, low demand, etc. Obviously, higher the ratio the better is the profitability. But while interpreting the ratio it should be kept in minds that the performance of profits also be seen in relation to investments or capital of the firm and not only in relation to sales(Atril, 2006).

$$\text{Net profit margin} = \frac{\text{Net profit after tax}}{\text{Sales}} * 100$$

**Conceptual review on external auditing**

The external auditor is responsible for reporting on whether the financial statements show a 'true and fair view'. He is therefore only concerned with fraud and error that has a material effect on the true and fair view. The auditor's responsibility is to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error (Ali-Baba, 2016).

Financial reports are an important tool prepared and used by managers of the firm to communicate financial information to investors and stakeholders, while simultaneously reducing the level of information asymmetry that exists between owners and managers (Antle&Nalebuff, 1991). Subjecting financial statements to external verification and assurance is a mechanism through which managers can add credibility to the reports, enhance and improve the quality of financial information, while increasing the reliance placed upon them (Jensen &Meckling, 1976;Watts & Zimmerman, 1986). That is, financial statements are representations by management and the external audit function is placed over the top of these representations to assess if the statements present a 'true and fair view'.

Categories of external auditing have been categorized by functions which are divided in to three categories, but the author will limit it only on independent audit such as: the financial statements audit, the performance audit, and the compliance audit (ISA, 2012; OECD, 1998; Power, 1997).

**Financial statement audit**

Audit of financial statements is also known as financial audit. It is a verification of the financial statements of a legal entity with a view to express an audit opinion. The purpose of financial audit is to provide reasonable assurance that the financial statements are presented fairly, in all material respects and/or give a true and fair view in accordance with the financial reporting frame work (ISA, 2012). To be clearer, auditing of financial statements is the process of determining whether all financial statements of an organization which have been announced are in accordance with a specific standard or not. This is a process of checking the level of trustworthy of the announced financial statement. The main statement that financial audit will concern are balance sheet, income statement, statement of cash flows and accompanying footnotes. Financial audit is usually performed by a firm practicing accountants who are experts in financial reporting.

Audits of financial statements is mostly aimed at certification of the bank's accounts. A financial statement audit examines financial statements, records, and related operations to ascertain adherence to generally accepted accounting principles. According to Unegbu andKida (2011), financial statement audit is conducted to determine whether the overall financial statements are stated in accordance with specified criteria. Normally, the criteria are generally accepted accounting principles (GAAP), although it is also common to conduct audits of financial statements prepared using the cash basis or some other basis of accounting appropriate for the organization. These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported.

OECD (1998) states that the objective of financial statements audit is that; Access to capital markets, mergers, acquisitions, and investments in an entity depends not only on the information that management provides in financial statements, but also on the degree of assurance that the financial statements are free of material error and fraud. In the process of providing reasonable assurance that financial statements are fairly presented, an auditor assesses whether; Transactions and amounts that should have been recorded are reported in the financial statements; The assets and liabilities reported in the financial statements existed at the balance sheet date and the transactions reported in the financial statements occurred during the period covered by the statements; Reported assets are owned by the entity and liabilities owed by the entity at the balance sheet date are reported; The financial statement amounts (assets, liabilities, revenues, and expenses) are appropriately valued in conformity with accounting standards; The financial statement amounts are properly classified, described, and disclosed in conformity with accounting standards.

Financial audit, whose objective is control of the adequacy of the accounting system, the information provided by this system, as well as the financial statements arising from this system. More precisely, this type of audit represents verification the accuracy of the presentation of all accounting and financial statements as well as their compliance with the accepted criteria and standards. The quality of the accounting system as the most important information subsystem in a bank, is of great importance considering that it facilitates the implementation and monitoring of the achievement of objectives set by management (Josheski&Jovanova, 2012).

**Compliance audit**

A compliance audit is also known as or regularity audits is a comprehensive review of an organization's legitimate. It is undertaken to confirm whether a firm is following the terms of an agreement (for example, a bond indenture), or the rules and regulations applicable to an activity or practice. What, precisely, is examined in a compliance audit will vary depending upon whether an organizations is a public or private company and what kind of data it handles and if it transmits or stores sensitive financial data. Rouse (2010) compliance audit examines the level of executive law, policies or management standard of an organization. The standard used in compliance audit are those statements that are related with the organization such as tax, rule, law and policy. Those statements are usually given by the government. Compliance audit is usually performed by external auditors and government's auditors and it serves the authority.

Compliance is the assessment of management's compliance with laws and regulations, etc. Audit of compliance which has an objective to assess the quality and adequacy of the established systems for checking the compliance with laws, regulations, policies and procedures (Josheski & Jovanova, 2012). This type of audit it is used determine whether the institution is complying with internal procedures, internal controls, and applicable laws and regulations.

According to OECD (1998), Compliance or regularity audits examine legal and administrative compliance, the probity and propriety of administration, financial systems, and systems of management control. Compliance auditing can help a company identify weaknesses in regulatory compliance processes and create paths for improvement. In some cases, guidance provided by a compliance audit can help reduce risk, while also avoiding potential legal trouble or federal fines for noncompliance.

**Performance audit**

Performance audits is also known as an operational audit or value-for-money, Operational audit will examine a company's internal systems and procedures used to produce its goods and services sold to consumers. It also tests production operations for efficiency and effectiveness. Operational audit may be conducted by internal employees or external auditors with appropriate knowledge in the area. Operational audit is usually providing a deeper review of company operations than financial audit. The purpose of operational audit is to improve workflow or cost allocation processes and quicker turnaround times. Osmand(2012) operational audit can be understood as the process to examine and measure the level of effective and efficiency of an operation to find the way to improve the performance of that operation. Operational audit also reviews the procedure and method of any unit within organization to measure the current performance of that unit as well as suggest a solution to improve it. For example, operational audit can examine the level of efficiency of calculating salary software which is installed recently in an organization. Luyen (2009) in operational audit, the standards for measurability are identified depending on each operation. There is no general standard. The selection of standard is done by the auditor and usually subjective. Operational audit can be performed by both internal and external auditors and the audited organization is the one that take the advantages of the operational audit.

According to OECD (1998), this type of audit includes a review of policies, procedures, and operational controls (e.g., loan review) to determine whether risk management, internal controls, and internal processes are adequate and efficient. Josheski and Jovanova (2012) performance audits which investigate whether the objectives of the bank's activities were achieved and whether these were obtained in an efficient manner. An operational audit examines an organization's activities in order to assess performances and develop recommendations for improvements, or further action. Auditors perform statutory audits which are performed to comply with the requirements of a governing body, such as a federal, state, or city government or agency. An operational audit evaluates the efficiency and effectiveness of any part of an organization's operating procedures and methods. At completion of an operational audit, management normally expects recommendations for improving operations. In operational auditing, the reviews are not limited to accounting. It is more difficult to objectively evaluate whether the efficiency and effectiveness of operations meets established criteria than it is for compliance and financial statement audits. Also, establishing criteria for evaluating the information in an operational audit is extremely subjective. Thus, operational auditing is more like management consulting than what is usually considered auditing.

operational audit (that is, internal audit of the system), whose goal is the assessment of the quality and adequacy of all established systems and procedures, critical analysis of the organizational structure in terms of adequacy of methods and resources in relation to the set tasks, systematical controlling of all operations in accordance with the established objectives and their implementation, identification of the opportunities for improvement and making recommendations for improvement, extension or termination of such activities (Josheski&Jovanova, 2012).

**Theoretical Framework**

According to Sekaran (2005),the theoretical framework is a conceptual model that theorizes or makes absolute sense of the link amongst several dimensions recognized as fundamental to the question under inquiry.The theory logically flows from the documentation of prior studies in the subject area and by defining the theories relevant to the research. The study was guided by the agency theory, stakeholders' theory, Stewardship theory, and the policeman theory. The analysis of these theories drive the link to the study and bring out existing research gaps

**The Agency Theory**

Agency theory suggests that the auditor is appointed in the interests of both the third parties as well as the management. A company is viewed as a web of contracts. Several groups (suppliers, bankers, customers, employees) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them: low price for purchased supplies, high price for sold goods, low interest rates for loans, high share prices and low wages for employees. In these relationships, management is the agent, which tries to gain contributions from principals (bankers, shareholders, employees) (Ang*et al*.,1993).

Enterprises are owned by their shareholders, partners in a partnership business. Small enterprises can have a single shareholder, while very large and often publicly traded companies can have several shareholders. As a rule, the shareholders are only responsible for the payment of their own shares or contributions. As owners, the shareholders are entitled to receive the profits of the company, usually in the form of dividends. The shareholders also elect the directors of the company. The directors of the company are responsible for the day-to-day activities of the company. They owe a duty of care to the company and must act in its best interest. They are usually elected. Smaller companies can have a single director, while larger ones often have a board comprised of several directors. Except in cases of fraud or in some specific tax statutes, the directors do not have a personal liability for the company's debts. The directors or management of the company are the ones involved in the day to day running of the business and have their own interest which is different from that of the company, in this case there exists a conflict of interest between owners of the business and management. The management is different from the main goals of the organization which is for making profit while shareholders want their return or interest from their investment (dividend), To strike of this, owners must bring in external auditors who are external firms and expert investigators to audit the financial statement to give the truth and fairness of the operations of the enterprise (Xie*et al*., 2003; Chen*et al*., 2011; Davidso*et al*., 2005; Benkel*et al*., 2006; Goodwin &Seow, 2009).

Anderson *et al*. (1993) stated that, the need for external auditors may be seen as a response to the agency problem and the audit functions as a mechanism to attest to the accountability. On the basis of agency theory, large audit firms act as mechanisms for reducing the information asymmetry and agency costs, limiting opportunistic behavior of management through monitoring (Jensen and Meckling, 1976) and contributing to the improvement disclosed information quality (Chung *et al*., 2002), thus ensuring the protection of investors (McDaniel *et al*., 2002).

For the purpose of this research; This theory relates to this my study as it helps to explain the role of external audit which help to improve firm performance of Bank of Kigali. The contribution of an audit to third parties is basically determined by the probability that the auditor will detect errors in the financial statements and the auditor's willingness to report these errors. Then independence is emphasized in auditing.

**Stakeholder Theory**

Stakeholder theory explains the relationship between organizations and their external environment (Freeman, 1984). A stakeholder is defined as a human agency that can have an impact or affect organizations (Gray *et al*., 1996). Stakeholders represent the big umbrella for all individuals and parties that may have a direct or indirect interest in an organization.

Direct stakeholders are shareholders, employees, investors, customers and suppliers whose interests are aligned with the company. An example of an indirect stakeholder is the government, which is indirectly affected by the company's function (Kiel & Nicholson, 2003). Due to this role of stockholders, organizations are not only accountable to shareholders only but also to stakeholders. As a result of this accountable relationship, many factors and conditions exist to maintain and manage the stakeholder-organizations relationship.

Stakeholder theory is an extension of the agency view, which is believed to better equip managers to articulate the shared purposes of their firm and board of directors to look after the interests of shareholders. However, this narrow focus on shareholders has been expanded to take into account the interests of many different stakeholder groups, including interest groups related to social, environmental and ethical considerations (Freeman, 1984; Donaldson and Preston, 1995; Freeman *et al*., 2004).

The linkage between stakeholder theory and earnings management is explained by Hodge (2003) who document that management may manipulate earnings in order to improve their private interests via expense of shareholders and additionally the rest of stakeholders. Stakeholders' theory views external audit as effective monitoring systems that could protect all stakeholders' interests. Mattingly *et al*. (2009) also find high-quality external audit is associated with high earnings quality and low earnings management in origination's stakeholder management. Moreover, in terms of audit quality, Baker and Owsen (2002) suggest that the role of external auditor as monitoring mechanisms is not only directed for shareholders' benefit, but also for the interests of all stakeholders.

In this study the stakeholder's theory supports the study by the fact that The boards of directors and banks' management are responsible for ensuring that financial statements are prepared according to the financial reporting scope. They are also responsible for ensuring audited annual financial statements and the fact they "carry" the opinion of an independent external auditor.

**Stewardship theory**

Stewardship (Monitoring) theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behavior is also conditioned by non-financial motives such as the need for recognition of their achievements and performance (Van den Berghe&Levrau, 2004). Thus the directors' role is to counsel and advice rather than to monitor.

Stewardship theory is based on agency theory (Jensen and Meckling 1976): the separation of ownership and control motivates the owners to incur costs to monitor the activity of the managers. One of these controls is the hiring of an external auditor who certifies the accuracy of the financial information provided by the managers.

Therefore, the stewardship (monitoring) theory considers external auditing as a mechanism that can contribute to control the conflict of interests among firm managers, shareholders and other external claimholders by enhancing the credibility of publicly reported financial information(Chow, 1982). Stewardship theory considers the external auditors as an instrument of assistance to a steward chief executive officers rather than a controlling mechanism (Hay & Davis, 2004).It also considers that management is less likely to practice earnings management. However, the problem lies in the extent to which the management aspires to attain a good corporate performance.

As discussed by Anderson *et al*. (1993) stated that, the need for external auditors may be seen as a stewardship of company management to reduce the possibility of innocent mistakes and deliberate misstatements such as fraud and management manipulation.

In this study the steward theory supports the study by the fact that managers of financial institutions act as stewards of shareholders, suppliers, creditors, consumers and employees of these institutions.

**The policeman theory**

The policeman theory claims that the auditor is responsible for searching, discovering and preventing fraud in the early 20th century this was certainly the case. However, more recently the focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statement and which is the focus of external auditors. The dictation of fraud, is however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement fraud have been revealed, the pressure increases on the increasing the responsibilities of the auditors in dictating fraud (Hayes *et al*., 2005). For the purpose of this research this theory is related to my study.

**Empirical review**

According to Gheorghe (2012),financial statement audit is performed to determine if the information and/or the financial statements are presented according to certain criteria. A financial statement audit is also the examination of an entity's financial statements and accompanying disclosures by an independent auditor. The result of this examination is a report by the auditor, attesting to the fairness of presentation of the financial statements and related disclosures. The auditor's report must accompany the financial statements when they are issued to the intended recipients. The purpose of a financial statement audit is to add credibility to the reported financial position and performance of a banks.

Oladutire*et al*. (2013)conducted a research on compliance audit and corporate financial performance: Banks in Rivers State, and results indicated that there is a strong and significant relationship between auditing procedures and return on investment; there is a positive and significant relationship between auditing procedures and profitability; there is a strong and positive relationship between auditing rules and return on investment; and there is a significant and positive relationship between auditing rules and profitability. It was concluded that conclude that compliance auditing is a process of conducting audit in line with all the applicable known rules and procedures that gives an audit a high regard in the settlement of corporate governance issues and the enhancement of corporate financial performance of organizations. It was recommended that banks should plan their audit processes in line will all relevant standards and regulations guiding audit processes in order assess their performances; and banks should adopt the use of compliance audit process in order to achieve a comprehensive review of their organization's adherence to regulatory rules and guidelines for the provision of valid and reliable audit reports for all stakeholders.

The need for compliance auditing is to ensure that during litigation about the audit procedures and rules adopted in an audit process, valid and verifiable audit report can be provided by an organization to state the true position of affairs in a company. This is to provide a true picture to all stakeholders about the affairs of the organization (Fargason, 1993). Compliance audit deals with the comprehensive review of an organization's adherence to regulatory rules and guidelines (Stephen, 2002). It is also linked with the process of determining if transactions in organizations have followed applicable rules or not (Fargason, 1993). Thus, if rules are violated, the compliance audit process ensures that the cause of the violation is investigated and necessary precautions taken with the appropriate recommendation given to prevent future deviations (Stephen, 2002). Most researchers of compliance auditing treat the concept as one seeking to investigate the procedure used to ascertain effective internal control for the realization of reliable audit and to avoid possible litigation (Fargason, 1993). Thus, Vitez (2010) opined that "a compliance audit is the review of business functions to determine whether or not a company is meeting specific contractual, regulatory or predetermined requirements. Compliance audits are used in the review of organizations employees or departments". Consequently, to actualize the achievement of corporate performance, organizations use compliance audits to conduct internal reviews that measure how well each department operates according to standard operating procedures. Contractual and regulatory compliance audit review how well an organization follows written agreements or meets third party guidelines (Fargason, 1993). In compliance audit, the rules being tested can be those created by the organization for itself, through corporate bye-laws, policies, plans and procedures or can be those imposed on the organization through external laws and regulations (Kantiolm, 1998). Based on this, compliance audit seeks to ascertain how the adoption and adherence to regulatory processes, policies, plans, and guidelines can enhance organizational effectiveness through valid and reliable audits reporting (Fargason, 1993).

According to Gheorghe (2012), performance audit was to search for reliable data to help them establish if their banks fulfilled their rules. It deals with (i) attestation of the companies' financial responsibilities, involving examination and evaluation of financial records and expression of opinions on financial statements; (ii) attestation of financial accountability of the administration; (iii) audit of financial systems and transactions, including an evaluation of compliance with applicable laws and regulations; (iv) audit of internal control functions; (v) audit of the probity of the administrative decisions taken within the audited company; (vi) report of other aspects that arise from or that are related to the audit should be disclosed. Subsequently, there was a need to control the results and the way in they were obtained. Thus a new concept appeared, that of performance audit, which is defined as "an audit of economy, efficiency and efficacy with which the audited entity uses its resources to fulfill its own responsibilities." Developed countries experimented different methods and techniques of performance audit, established criteria to measure governmental performance and developed indicators for performance and control techniques.

Banks conducts the performance audit to determine the way in which bank's financial resources are spent. Auditors performs an independent evaluation to determine if a banks uses the financial resources allocated to accomplish the objectives in an economic, efficient and effective manner. Through its observations and recommendations, performance audit must lead to a decrease in the cost of resources or to an enhancement of results.

The boards of directors and banks' management are responsible for ensuring that financial statements are prepared according to the financial reporting scope. They are also responsible for ensuring audited annual financial statements and the fact they "carry" the opinion of an independent external auditor. According to the international auditing standards, an audit is conducted on the precondition that managers and, where appropriate, those in charge with the governance, adopt some fundamental responsibilities in conducting the audit. By auditing the financial statements, either managers or those in charge with the governance are not exempted from facing their responsibilities (Nedelcu*et al*., 2015).

While performing the audit, the external auditor assesses bank's financial statements, aiming at obtaining the reasonable insurance that these statements do not contain considerable distortions, due to fraud or error. Thus, at the end of the auditing process, the auditor will state the opinion that the financial statements are organized according to the applicable financial reporting framework. Hence, the external auditors play a key role in maintaining public confidence in audited financial statements. In terms of banking services, this public role is particularly relevant in ensuring banks' financial stability taking into account their financial intermediating function played in the economy (Nedelcu*et al*., 2015).

According to Nedelcu*et al*. (2015), audit quality is essential in maintaining and strengthening this public role. Aside from these facts, the external auditor is required to directly report to the supervisor, the important issues arising during bank's audit. For an optimal audit development, the external auditor must possess solid knowledge and skills on the banking sector matters to be able to appropriately respond to the risks generated by distortions that can be found in the audited financial statements of the bank and to comply with the additional regulation that may be part of the audit process. At the same time, the external auditor must be objective and independent both in fact and appearance, during the audit process. He/she will demonstrate professional skepticism in planning and performing the audit, taking into account all the specific challenges that may occur.

According to generally and internationally accepted auditing standards, control system components include: control environment; risk assessment process across the organization, information system, including related business processes relevant to financial reporting and communication, control and monitoring activities undertaken within bank. The mechanisms for compensation or remuneration system of a bank can be a good indicator for the assessment of organizational culture, as they are able to influence bank staff attitude towards risk and the quality of corporate governance. In this context, the external auditor will pay special attention to possible risks of significant distortion in financial statements that can occur as a result of frauds, especially when banks use specific compensation arrangements that may encourage excessive risk-taking or other inappropriate behaviors of the employees.

Therefore, Ghadhab*et al*. (2019) asserted that it is the planning to recruit a number of staff who are required by the audit firms and maintain a program designed for those firms to have qualified staff with the appropriate skills and competencies to assist them in carrying out their assigned tasks efficiently and effectively due to the positive relationship between the success of the audit firms and the efficiency of their staff, and developing guidelines for periodically evaluating staff for each occupational level.

### Conceptual Framework

The conceptual framework sets out the theoretical association between predictor variables, moderating variables and the outcome variables (Eriksson &Kovalainen, 2015). Drawing on the agency theory, stakeholders' theory, Stewardship theory, and the policeman theory, the study predictor variables financial statement audit, compliance audit, and performance audit which is assumed to have a relationship with firm performance(dependent variable) and skilled employees where in this study is the moderating variable. The conceptual framework is presented in Figure 1

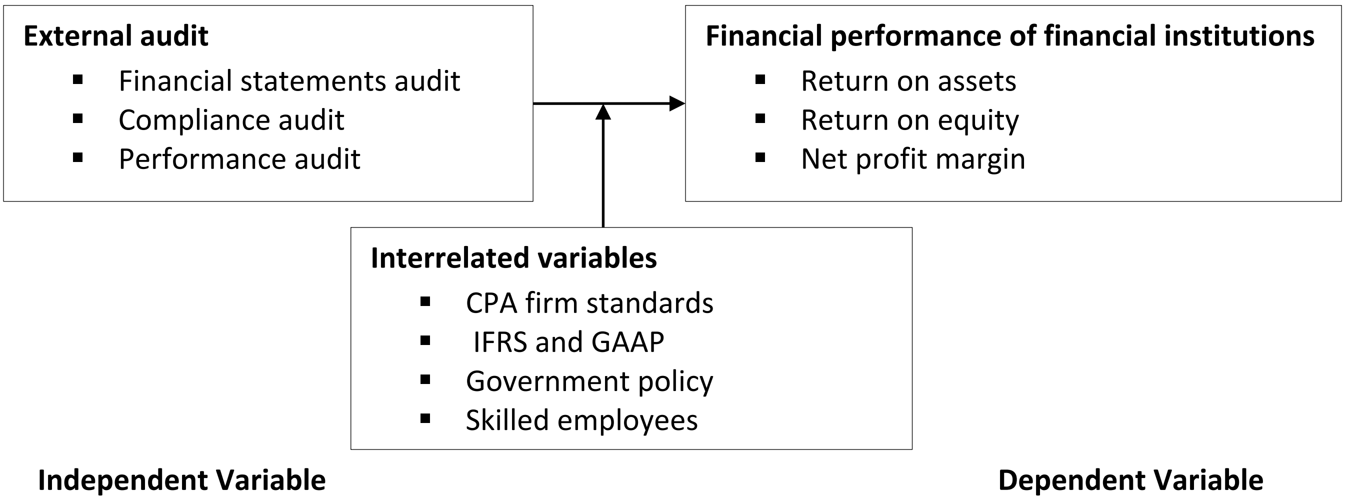


**Figure 1: Concept Framework**

## METHODOLOGY

### Research design

Research design is the procedure for collecting, analyzing, interpreting, and reporting data in research studies. According to Zikmund *et al.,* (2013) research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose and procedure. According to De Vaus (2013), a research design is defined as the overall strategy employed to integrate different components a study into a coherent and logical manner in order to ensure that the study effectively addresses the research problem. Under this study the explanatory research design was adopted.

### Source of data

Both primary and secondary sources of data was obtained for the study. The primary data was obtained directly from respondents through the administration of questionnaires. The secondary data was also obtained from Bank of Kigali audited report like financial statements from 2018 to 2020, the library of the schools, internet, journal articles, newspapers and research reports on banks. The idea of secondary data was to gather necessary information to guide the conduct of the research project in order to confirm or reject the primary data.

### Primary data

Primary data is a type of information that is obtained directly from first-hand sources by means of surveys, observation or experimentation (Saunders, 2011). This is the first information obtained directly from the field; researcher expected to obtain these data using questionnaires where structured questionnaires was administered to selected respondents.

### Secondary data

Sekaran (2005) described "secondary data" as the information not gathered for the immediate study at hand but for other purpose". Sekaran (2005) further described secondary data as data obtained


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second hand from published or recorded sources and used for a purpose different from that of the agency that initially collected and published the data. Secondary data are those which have already been collected by someone else and which have already been passed through statistical processes. This study consulted secondary data for this study from review of documentary sources in which Bank of Kigali audited report like financial statements from 2018 to 2020, text books, journals, articles, government publications and reports both published and unpublished were reviewed; online sources were also consulted.

**Data collection techniques**

According to Harper (1989), data collection techniques include the means used to obtain the desired information about the topic. The researcher used different techniques to collect data from bank of Kigali head quarter. The Primary data was collected with the aid of a detailed questionnaire while secondary data was obtained using documentary technique.

**Questionnaire technique**

Sekaran (2005) defined questionnaires as the tools for data collection based on analysis of responses to the set of posed questions for the sample of population. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents (Franklin, 2012). The study utilized questionnaires which had structured questionnaire that contained closed and open ended questions which allowed collection of qualitative data. The data collection instrument allowed ease of data as well as save time and allow for un-ambiguity in answering questions and thus a thorough study. Questionnaires was the main data collection instrument to be used for the study. The questionnaire was appropriate because it is assumed that the selected employees of bank of Kigali, head quarter, are literate and for that reason they could be able to respond to the questions unaided.

**Documentary technique**

This technique consists in reading the various documents: books, reports, articles, published and unpublished materials, and dissertations in order to gather information that allows to conduct a systematic research by using written sources in connection with the research area (Grinnell & William, 1990). For the purpose of this study, documentation was used to critically analyze the audited financial statement of Bank of Kigali, head quarter, books, articles, journals, internet and documents related to the external auditing and firm performance and enables the researcher to obtain modest information.

**Target population**

According to Cooper & Schindler (2011) population is defined as the total collection of elements about which a researcher makes inferences. Similarly, Kombo & Tromp (2011) define a population as a group of individuals, objects or items from which samples are taken for measurement in a study. MoresoEriksson & Kovalainen (2015) defined a population as the researcher’s universe indicating that population as all items in any field of inquiry. Therefore the target population off this study was 87 employees of Bank of Kigali, head quarter.

**Sampling techniques**

According to Sekaran and Bougie (2010) sampling refer to the process of selecting a number of individuals so that the selected individuals represent the large group from which they was selected. Therefore, the sampling technique that was used in this study is universal sampling. The researcher preferred to use universal sampling technique to select respondents from the employees in their respective department because they are the ones who may provide the useful information to test the hypothesis of this research.

**Sample size**

According to Grinnell & Williams (1990), a sample size is a part of population which is deliberately selected for the purpose of investigation. Under this study, according to Yamane principle, since the total number of population is less than 100 no need of calculating a sample, the sample size was 87 employees of bank of Kigali, head quarter.

**Data Analysis and Presentation**

**Descriptive Analysis**

Descriptive statistics involves the transformation of raw data into a form that would be easy to understand (Zikmund*et al.,* (2013). The study used descriptive statistical tools which include frequency distribution, measures of central tendency and dispersal such as mean and standard deviation. Descriptive statistics describe the main characteristics of the data sets including the size, mean, standard deviation, skewness, and kurtosis of dependent and explanatory variables. Descriptive statistics provide a general picture of the individual variable, determining the suitability or otherwise of multivariate statistical tests (Zikmund*et al.,* (2013).

**Inferential Analysis**

The inferential analysis deals with drawing conclusions and making generalizations and predictions about the properties of a given population based on information obtained from a sample. Inferential analysis was performed to infer generalization from the data and answer the objectives of the study. The data collected was analyzed using multiple linear regression model.

**Regression model**

A general regression model was adopted:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 M_4 + \varepsilon$$

Where;

$Y =$ Firm Performance

$X_1$ =Financial statement audit

$X_2$ =Compliance audit

$X_3$ =Performance audit

$X_4$ = Skilled employees

$\varepsilon$ =Error term

$\beta_0$=The constant of equation

$\beta_1 - \beta_4$ = Are the parameters (coefficient of estimates)

**Validity and Reliability**

Validity of the Research Instrument is the accuracy and meaningfulness of inferences based on the research findings. It is a measure of how well a test measures what it is supposed to measure. It is concerned with the accurate representation of the variables under study. This was addressed in this study by good instrument design to reflect the research objectives and pre-testing the instruments (Borg & Gall, 1997). Data completeness and uniformity was maintained and this facilitated application of other data analysis techniques like editing, coding, data organization, data classification and tabulation. Content validity was used to confirm that the research instrument was appropriate to generate the desired response.

Reliability of the Research Instrument is the measure of the consistency of the results from the tests of the instruments. It is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It is influenced by random error. Reliability of the research instrument was tested using Cronbach's alpha (α) coefficient of reliability. The Cronbach's alpha coefficient ranges from 0 to 1. The higher the score, the more reliable the generated scale is. According to Fraenkel and Wallen (2000), as a rule of thumb, a proposed psychometric instrument should only be used if an alpha value of 0.70 or higher is obtained on a substantial sample.

**Research limitations**

Some limitations also were encountered during the process of data collection; however solution was sought in order to make the findings of the study available as planned. The main limitation that this study was encountered is that the access to the financial statements of financial institutions in Rwanda is not easy which solved by a letter of authorization from the university of Kigali and this letter was used by the researcher as evidence to the top management of bank of Kigali, head quarter to prove that the research is conducted for only the academic purpose.

**Ethical consideration**

Ethical considerations were made by the study by first seeking authorization from the top management of the banks where the study expects to be carried out. Questionnaires were structured in such a way that there was no mention of the respondents' name. A statement as to the strict confidentiality of the data was expressly stated in the questionnaire. Ethical consideration will again take care of by the researcher briefing the respondents as to the purpose of the research, their relevance in the research process, and expectations from them. The participant's consent in the research was voluntary, free of any coercion or inflated promise of benefits from participation.

## FINDINGS

### Descriptive statistics analysis and discussion

Descriptive were used to analyze primary data collected through use of structured questionnaires. Respondents rating were sought in a five-point Likert scales ranging from 1 to 5, where strongly disagree=1, disagree=2, undecided=3, agree=4, and strongly agree=5. Mean and standard deviations were used to describe their responses.

### Financial statement audit

The first objective of the study was to determine the effect of financial statement audit on firm performance of bank of Kigali, head quarter. To achieve this objective, the respondents were asked to demonstrate their level of agreement on the statement related to financial statement audit on firm performance of bank of Kigali, head quarter.

**Table 1: Descriptive statistics of the effect of financial statement audit on firm performance of bank of Kigali, head quarter.**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Does financial statement audit conducted within in bank of Kigali, head quarter? | 87 | 5.0000 | .00000 |
| Does bank of Kigali, head quarter possess an adequate accounting information system properly identifies, assembles, analyzes, classifies records, interpret, communication and reports the institution's transactions in accordance with prescribe formats and best practice? | 87 | 4.2644 | .44355 |
| Do you believe that proper financial statement audit can improve firm performance in bank of Kigali, head quarter? | 87 | 4.3678 | .48501 |
| Do you think that the financial statement audit is an important tool for reducing information asymmetries and maintaining an efficient market environment? | 87 | 4.7931 | .40743 |
| Does financial statement audits carried out periodically in bank of Kigali, head quarter? | 87 | 4.1839 | .56091 |
| Does financial statement audit have an effect on firm performance of bank of Kigali, head quarter? | 87 | 4.1494 | .35857 |
| Valid N (listwise) | 87 | | |

The results from the table 1 indicated that the majority of the respondents were Strongly agree with the statement that, Financial statement audit conducted within in bank of Kigali, head quarter as represented by (mean=5.0000 and Standard deviation =0.00000); The financial statement audit is an important tool for reducing information asymmetries and maintaining an efficient market environment as represented by (mean=4.7931 and Standard deviation =0.40743). While other respondents were in agreement with the statement that, Bank of Kigali, head quarter possess an adequate accounting information system properly identifies, assembles, analyzes, classifies records, interpret, communication and reports the institution's transactions in accordance with prescribe formats and best practice as represented by (mean=4.2644 and Standard deviation

=0.44355); Proper financial statement audit can improve firm performance in bank of Kigali, head quarter as represented by (mean=4.3678 and Standard deviation =0.48501); Financial statement audits carried out periodically in bank of Kigali, head quarter as represented by (mean=4.1839 and Standard deviation =0.56091); and Financial statement audit have an effect on firm performance of bank of Kigali, head quarter as represented by (mean=4.1494 and Standard deviation =0.35857).

This was supported by ISA (2012) who said that the purpose of financial audit is to provide reasonable assurance that the financial statements are presented fairly, in all material respects and/or give a true and fair view in accordance with the financial reporting frame work.

**Compliance audit**

The second objective of the study was to establish the effect of compliance audit on firm performance of bank of Kigali, head quarter. To achieve this objective, the respondents were asked to demonstrate their level of agreement on the statement related to compliance audit on firm performance of bank of Kigali, head quarter.

**Table 2: Descriptive Statistics of the effect of compliance audit on firm performance of bank of Kigali, head quarter.**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Does compliance audit conducted within in Bank of Kigali, head quarter? | 87 | 4.6437 | .48169 |
| Does compliance auditing improve the procedure used in bank of Kigali, head quarter to ascertain effective internal control for avoiding possible litigation? | 87 | 4.4483 | .50020 |
| Do you think compliance audit is an assessment of management's compliance with laws and regulations to enhance organizational effectiveness? | 87 | 5.0000 | .00000 |
| The compliance audit improves the employee's performance on financial reporting as key to firm performance? | 87 | 4.2299 | .42320 |
| Does compliance audit have an effect on firm performance of bank of Kigali, head quarter? | 87 | 5.0000 | .00000 |
| Valid N (listwise) | 87 | | |

The results from the table 2 indicated that the majority of the respondents were Strongly agree with the statement that, Compliance audit conducted within in Bank of Kigali, head quarter as represented by (mean=4.6437 and Standard deviation =0.48169); Compliance audit is an assessment of management's compliance with laws and regulations to enhance organizational effectiveness as represented by (mean=5.0000 and Standard deviation =0.00000); Compliance audit have an effect on firm performance of bank of Kigali, head quarter as represented by (mean=5.0000 and Standard deviation =0.00000). While other respondents were in agreement with the statement that, Compliance auditing improve the procedure used in bank of Kigali, head quarter to ascertain effective internal control for avoiding possible litigation as represented by (mean=4.4483 and Standard deviation =0.50020); Compliance audit improves the employee's performance on financial reporting as key to firm performance as represented by (mean=4.2299 and Standard deviation =0.42320).

This was supported by Josheski & Jovanova (2012) who argued that Compliance audit is the assessment of management's compliance with laws and regulations, etc. Audit of compliance which has an objective to assess the quality and adequacy of the established systems for checking the compliance with laws, regulations, policies and procedures. This type of audit it is used determine whether the institution is complying with internal procedures, internal controls, and applicable laws and regulations.

**Performance audit**

The third objective of the study was to investigate the effect of performance audit on firm performance of bank of Kigali, head quarter. To achieve this objective, the respondents were asked to demonstrate their level of agreement on the statement related to performance audit on firm performance of bank of Kigali, head quarter.

**Table 3: Descriptive Statistics of the effect of performance audit on firm performance of bank of Kigali, head quarter**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Does performance audit conducted within in bank of Kigali, head quarter? | 87 | 5.0000 | .00000 |
| Do you think a performance audit ensures the objectives of the bank's activities were achieved and obtained in an efficient manner? | 87 | 4.3333 | .47414 |
| Do performance audit's recommendations improve the efficiency and effectiveness of bank operating procedures and methods? | 87 | 4.8161 | .38966 |
| Do you think performance audit can improve the customer's satisfaction as well firm performance? | 87 | 4.1264 | .86002 |
| Does performance audit have an effect on firm performance of bank of Kigali, head quarter? | 87 | 5.0000 | .00000 |
| Valid N (listwise) | 87 | | |

The results from the table 3 indicated that the majority of the respondents were Strongly agree with the statement that, performance audit conducted within in bank of Kigali, head quarter as represented by (mean=5.0000 and Standard deviation =0.00000); performance audit's recommendations improve the efficiency and effectiveness of bank operating procedures and methods as represented by (mean=4.8161 and Standard deviation =0.38966); performance audit have an effect on firm performance of bank of Kigali, head quarter as represented by (mean=5.0000 and Standard deviation =0.00000). While other respondents were in agreement with the statement that, performance audit ensures the objectives of the bank's activities were achieved and obtained in an efficient manner as represented by (mean=4.3333 and Standard deviation =0. 47414); performance audit can improve the customer's satisfaction as well firm performance as represented by (mean=4.1264 and Standard deviation =0.86002).

OECD (1998) confirmed that this type of audit includes a review of policies, procedures, and operational controls (e.g., loan review) to determine whether risk management, internal controls, and internal processes are adequate and efficient. And also supported by Josheski and Jovanova (2012) argued that performance audits which investigate whether the objectives of the bank's activities were achieved and whether these were obtained in an efficient manner.

**Skilled employees**

The fourth objective of the study was to investigate the moderating effect of skilled employees on the relationship between external auditing and the financial firm performance of bank of Kigali, head quarter. To achieve this objective, the respondents were asked to demonstrate their level of agreement on the statement related to skilled employees on the relationship between external auditing and the financial firm performance of bank of Kigali.

**Table 4: Descriptive Statistics of effect of skilled employees on the relationship between external auditing and the financial firm performance of bank of Kigali, head quarter.**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Do skilled employees improve the implementation of internal control system as source of financial information for financial reporting within in bank of Kigali, head quarter? | 87 | 4.2644 | .44355 |
| Does the moderating of skilled employees pray an effect on the relationship between external auditing and the firm performance of bank of Kigali, head quarter? | 87 | 5.0000 | .00000 |
| Valid N (listwise) | 87 | | |

The results from the table 4 indicated that the majority of the respondents were Strongly agree with the statement that, skilled employees pray an effect on the relationship between external auditing and the firm performance of bank of Kigali, head quarter as represented by (mean=5.0000 and Standard deviation =0.00000). While other respondents were in agreement with the statement that, skilled employees improve the implementation of internal control system as source of financial information for financial reporting within in bank of Kigali, head quarter as represented by (mean=4.2644 and Standard deviation =0. 44355).

This was supported by Nedelcu*et al*. (2015) who confirmed that the boards of directors and banks' management are responsible for ensuring that financial statements are prepared according to the financial reporting scope. They are also responsible for ensuring audited annual financial statements and the fact they "carry" the opinion of an independent external auditor. According to the international auditing standards, an audit is conducted on the precondition that managers and, where appropriate, those in charge with the governance, adopt some fundamental responsibilities in conducting the audit. By auditing the financial statements, either managers or those in charge with the governance are not exempted from facing their responsibilities

**Inferential statistics analysis and discussion**

This section used inferential statistics to analyze the relationship using correlation and the effect using regression analysis.

**Correlation between external auditing and the firm performance of bank of Kigali, head quarter.**

This section analyzed the relationship between external auditing and firm performance of bank of Kigali, head quarter was established using diverse dimensions of external auditing ($X_1$: financial statement audit, $X_2$: compliance audit, $X_3$: performance audit, and X4: skilled employees) while ROE was for firm performance of bank of Kigali, head quarter.

**Table 5: Correlations between external auditing and the firm performance of bank of Kigali, head quarter.**

| | | X1 | X2 | X3 | X4 |
|---|---|---|---|---|---|
| X1 | Pearson Correlation | 1 | .539** | .470** | .922** |
| | Sig. (2-tailed) | | .000 | .000 | .000 |
| | N | 87 | 87 | 87 | 87 |
| X2 | Pearson Correlation | .539** | 1 | .225* | .673** |
| | Sig. (2-tailed) | .000 | | .006 | .000 |
| | N | 87 | 87 | 87 | 87 |
| X3 | Pearson Correlation | .470** | .225* | 1 | .532** |
| | Sig. (2-tailed) | .000 | .006 | | .000 |
| | N | 87 | 87 | 87 | 87 |
| X4 | Pearson Correlation | .922** | .673** | .532** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | |
| | N | 87 | 87 | 87 | 87 |

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The results from the table 5 established a positive significant relationship between external auditing and the firm performance of bank of Kigali, head quarter. This relationship was examined through the dimensions of external auditing ($X_1$: financial statement audit, $X_2$: compliance audit, $X_3$: performance audit, and X4: skilled employees) and firm performance of bank of Kigali, head quarter (ROE) selected for this particular study. Details show that financial statement audit is linked to firm performance of bank of Kigali, head quarter ($r = 1$, $p \leq 0.01$), compliance audit is also linked to firm performance of bank of Kigali, head quarter ($r = 0.539$, $p \leq 0.01$), performance audit is linked to firm performance of bank of Kigali, head quarter ($r = 0.470$, $p \leq 0.01$), skilled employees is also linked to firm performance of bank of Kigali, head quarter ($r = 0.922$, $p \leq 0.01$). It implied that there was a strong positive relationship between external auditing and the firm performance of bank of Kigali, head quarter.

This was cited by Gheorghe (2012) who said that the result of this examination is a report by the auditor, attesting to the fairness of presentation of the financial statements and related disclosures. The auditor's report must accompany the financial statements when they are issued to the intended recipients. The purpose of a financial statement audit is to add credibility to the reported financial position and performance of a banks.

**Table 6: Model Summary between external auditing and the firm performance of bank of Kigali, head quarter.**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .948[a] | .899 | .895 | .15304 |

a. Predictors: (Constant), Skilled employees, Performance audit, Compliance audit, Financial statement audit

The results from Table 6 showed that the coefficient of correlation (R) is 0.948 indicated that there was a strong positive relationship between external auditing (Skilled employees, Performance audit, Compliance audit, Financial statement audit) and the firm performance of bank of Kigali, head quarter (ROE). The results also found that coefficient of determination ($R^2$) is 0.899 indicated that 89.9% of increase in the firm performance of bank of Kigali, head quarter (ROE) was influenced by the Skilled employees, Performance audit,


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Compliance audit, Financial statement audit while 10.1% is due to other variables.

This was supported Oladutire*et al*. (2013) who conducted a research on compliance audit and corporate financial performance: Banks in Rivers State, and results indicated that there is a strong and significant relationship between auditing procedures and return on investment.

**Table 7: ANOVA[a] between external auditing and the firm performance of bank of Kigali, head quarter.**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | 13.980 | 3 | 4.660 | 198.977 | .000[b] |
| 1 | Residual | 1.569 | 67 | .023 | | |
| | Total | 15.549 | 70 | | | |

**a. Dependent Variable:** Firm performance of bank of Kigali, head quarter (ROE).

**b. Predictors: (Constant),** skilled employees, Performance audit, Compliance audit, Financial statement audit

The Analysis of Variance (ANOVA) result is a further confirmation of the fitness of the regression model given the significance of the parameters. The results from the table 7 indicated that the ANOVA statistics show that (F=198.977, p = .000[b]), the p-value (0.000) is less than the level of significance (0.05). Hence, the study concluded that the skilled employees, Performance audit, Compliance audit, Financial statement audit has a significant effect on firm performance of bank of Kigali, head quarter (ROE). Then alternative hypothesis were accepted while null hypothesis were rejected.

Oladutire *et al*. (2013) conducted a research on compliance audit and corporate financial performance: Banks in Rivers State, and results indicated there is a positive and significant relationship between auditing procedures and profitability.

**Table 8: Coefficients[a] between external auditing and the firm performance of bank of Kigali, head quarter.**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| | (Constant) | 5.561 | .880 | | 6.321 | .000 |
| | Financial statement audit | .383 | .025 | .844 | 15.531 | .000 |
| 1 | Compliance audit | .243 | .044 | .254 | 5.483 | .000 |
| | Performance audit | .048 | .025 | .095 | 1.898 | .002 |
| | Skilled employees | .048 | .025 | .095 | 1.898 | .002 |

a. Dependent Variable: Firm performance of bank of Kigali, head quarter (ROE).

The results from the table 8 indicated that the regression equation was obtained: $Y=5.561+0.383X_1+0.243X_2+0.048X_3+0.048X_4+e$, where Y = firm performance of bank of Kigali, head quarter (ROE), X4=Skilled employees, X3=Performance audit, X2=Compliance audit, X1=Financial statement audit, e= Error term. This indicated that holding other factors (skilled employees, Performance audit, Compliance audit, Financial statement audit) remain constant to zero; the firm performance of bank of Kigali, head quarter (ROE) would be attained at a unit of 5.561. It was also indicated that a unit increase in financial statement audit would lead to increase in firm performance of bank of Kigali, head quarter (ROE) by a factor of 0.383, a unit increase in compliance audit would lead to increase in firm performance of bank of Kigali, head quarter (ROE) by a factor of 0.243, a unit increase in performance audit would lead to increase in firm performance of bank of



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Kigali, head quarter (ROE) by a factor of 0.048, a unit increase in skilled employees would lead to increase in firm performance of bank of Kigali, head quarter (ROE) by a factor of 0.048.

Oladutireet *al*. (2013) conducted a research on external audit and corporate financial performance: Banks in Rivers State, and It was concluded that conclude that compliance auditing is a process of conducting audit in line with all the applicable known rules and procedures that gives an audit a high regard in the settlement of corporate governance issues and the enhancement of corporate financial performance of organizations. It was recommended that banks should plan their audit processes in line will all relevant standards and regulations guiding audit processes in order assess their performances; and banks should adopt the use of compliance audit process in order to achieve a comprehensive review of their organization's adherence to regulatory rules and guidelines for the provision of valid and reliable audit reports for all stakeholders.

**Analysis of firm performance of bank of Kigali, head quarter**

Lastly, the study sought to analyze the firm performance of bank of Kigali, head quarter for the last three years ranging from 2018 to 2020 to compare and analyze the trend in ROE, ROA, and NPM.

**Return on equity**

The table 9 showed how much money the shareholders of Bank of Kigali, Head quarter generated on its investments.

**Table 9: Return on equity**

| | **2018 Frw "000"** | **2019 Frw "000"** | **2020 Frw "000"** |
|---|---|---|---|
| Profit or loss after tax | 26,736,627 | 35,211,809 | 37,220,588 |
| Total equity | 161,582,995 | 196,794,804 | 216,409,486 |
| **Return on equity** | **16.55%** | **17.89%** | **17.20%** |

Source: Consolidated financial statements of Bank of Kigali, 2018-2020

The results from the table 9 indicated that the ROE was 16.55%, 17.89%, and 17.20% in 2018, 2019 and 2020; It implied that 100 frw shareholders of Bank of Kigali invested in total equity generated 16.55 frw, 17.89 frw, and 17.20 frw in 2018, 2019 and 2020 as net profit. This also implied that the situation of 2019 was fair compared to other years.

This was supported by Unegbu (2007) who confirmed that this ratio reflects on how much the firm has earned on the funds invested by the shareholders. This ratio is expressed in the percentage form of net profit earned to the owner's equity. The ratio measures the efficiency with which shareholders' fund are employed. Business with high return on equity is more likely to be one that is capable of generating cash internally.

**Return on Assets**

The table 10 showed the ability of the bank management to generate income by utilizing company assets at their disposal; and the rentability of funds employed and expresses the ability of these funds to create a certain level of operational benefits.

**Table 10: Return on assets**

| | **2018 Frw "000"** | **2019 Frw "000"** | **2020 Frw "000"** |
|---|---|---|---|
| Profit or loss after tax | 26,736,627 | 35,211,809 | 37,220,588 |
| Total assets | 819,737,035 | 999,057,589 | 1,277,105,512 |
| **Return on assets** | **3.26%** | **3.52%** | **2.91%** |

Source: Consolidated financial statements of Bank of Kigali, 2018-2020

The results from the table 10 indicated that the ROA was 3.26%, 3.52%, and 2.91% in 2018, 2019 and 2020; It implied that 100 frw of Bank of Kigali used in total assets generated 3.26 frw, 3.52 frw, and 2.91 frw in 2018, 2019 and 2020 as net profit. This also implied that the situation of 2018 was fair compared to other years.

Generally, Atril (2006) said that a higher ratio means better managerial profit and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets.

**Net profit margin**

The table 11 shows how much profit is generated from every franc in sales, after accounting for all business expenses involved in earning those revenues.

**Table 11: Net profit margin**

| | 2018 Frw "000" | 2019 Frw "000" | 2020 Frw "000" |
|---|---|---|---|
| Profit or loss after tax | 26,736,627 | 35,211,809 | 37,220,588 |
| Interest income | 75,444,707 | 94,260,387 | 111,843,673 |
| **Net profit margin** | **35.44%** | **37.36%** | **33.28%** |

Source: Consolidated financial statements of Bank of Kigali, 2018-2020

The results from the table 11 indicated that the NPM was 35.44%, 37.36%, and 33.28% in 2018, 2019 and 2020; It implied that 100 frw shareholders of Bank of Kigali invested in total equity generated 35.44 frw, 37.36 frw, and 33.28 frw in 2018, 2019 and 2020 as net profit. This also implied that the situation of 2019 was fair compared to other years.

Generally, Atril (2006) said that the ratio indicates what portion of the net sales is left for the owners after all expenses have been met. This ratio also indicates the firm's capacity to face adverse economic conditions such as price competition, low demand, etc. Obviously, higher the ratio the better is the profitability.

**CONCLUSION AND RECOMMENDATION**

The findings indicated that there was a strong positive relationship between external auditing (Skilled employees, Performance audit, Compliance audit, Financial statement audit) and the firm performance of bank of Kigali, head quarter (ROE). The study concluded that the skilled employees, Performance audit, Compliance audit, Financial statement audit has a significant effect on firm performance of bank of Kigali, head quarter (ROE). Then alternative hypothesis were accepted while null hypothesis were rejected.

Based on the findings, the study recommends the following;

Performance audit is linked to firm performance of bank of Kigali, head quarter ($r = 0.470$, $p \leq 0.01$); which showed that the correlation was moderate, and this type of audit includes a review of policies, procedures, and operational controls (e.g., loan review) to determine whether risk management, internal controls, and internal processes are adequate and efficient. They may improve so that correlation between performance audit and firm performance will be strong correlation.

**To further research**

This study recommended similar studies to be carried out and change the case study and compare the findings with the previous findings of the study.

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